# NOTES TO THE BASIC FINANCIAL STATEMENTS

## NOTE 1 – THE FINANCIAL REPORTING ENTITY

### (a) Reporting Entity

The County of San Bernardino (the "County"), which was established by an act of the State Legislature on April 26, 1853, is a legal subdivision of the State of California charged with governmental powers. The County's powers are exercised through a five-member Board of Supervisors (the "Board") which, as the governing body of the County, is responsible for the legislative and executive control of the County. As required by generally accepted accounting principles, these basic financial statements present the primary government and its component units, which are, in substance, although legally separate entities, part of the County's operations and so data from these units are blended with the data of the primary government. Each blended component unit has a June 30 year-end. The County has no discretely presented component units.

The County's Comprehensive Annual Financial Report does not include the financial statements of the San Bernardino County Employee's Retirement Association (SBCERA). The Retirement Board controls the Retirement Association acting as fiduciary agent for the accounting and control of member and employee contributions and investment income. The Retirement Association publishes a separate Comprehensive Annual Financial Report and receives a separate independent audit. The Retirement Association is also a legally separate entity from the County and was determined not to be a component unit according to the criteria set forth in Governmental Accounting Standards Board, the Financial Reporting Entity (GASB 14).

Additional detailed financial information for each of these entities can be obtained from the Auditor/Controller's Office at 222 W. Hospitality Lane, San Bernardino, CA 92415-0018.

### (b) Blended Component Units

Using the criteria set forth in Governmental Accounting Standards Board (GASB) Statement No. 14, the Financial Reporting Entity, management determined that the following component units should be blended:

- Fire Protection Districts
- Flood Control District
- Park and Recreation Districts
- Crestline Sanitation District
- County Service Areas
- Various joint powers authorities ("JPAs")
- The Inland Empire Facilities Corporation, created for the benefit of the County
- Inland Empire Solid Waste Authority
- San Bernardino County Financing Authority
- Crestline Financing Authority
- Redevelopment Agency of the County of San Bernardino

The County is financially accountable for each of the above component units through the County's elected officials and descriptions of these component units are contained in subsequent sections of this Comprehensive Annual Financial Report. Financial accountability is demonstrated by the Board of Supervisors acting as the governing board for the component unit. Because of their relationship with the County and the nature of their operations, each of the component units is, in substance, part of the County's operations and, accordingly, the activities of these component units are combined (blended) with the activities of the County for purposes of reporting in the accompanying basic financial statements.

## NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### (a) Basis of Presentation

In accordance with Governmental Accounting Standards Board Statement (GASB) No. 34 (GASB 34), the basic financial statements consist of the following:

- Government-wide financial statements,
- Fund financial statements, and
- Notes to the basic financial statements.

*Government – Wide Financial Statements*

The Statement of Net Assets and Statement of Activities display information about the primary government (the County) and its component units. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the governmental and business-type activities of the County. Governmental activities, which normally are supported by taxes and inter-governmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees charged to external parties.

The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the County and for each function of the County's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include 1) charges paid by the recipient for goods or services offered by the program and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

*Fund Financial Statements*

The fund financial statements provide information about the County's funds, including fiduciary funds and blended component units. Separate statements for each fund category – governmental, proprietary and fiduciary – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are separately aggregated and reported as nonmajor funds.

The County reports only one major governmental fund:

- *The General Fund* is used to account for all revenues and expenditures necessary to carry out basic governmental activities of the County that are not accounted for through other funds. For the County, the General Fund includes such activities as General Government, Public Protection, Public Ways and Facilities, Health and Sanitation, Public Assistance, Education, and Recreation and Cultural Services.

The County reports the following major enterprise funds.

- *The County Medical Center Fund* accounts for inpatient and outpatient care including emergency room services and indigent care to County residents. The fund is financed primarily by patient care services.

- *The Waste Systems Division Fund* accounts for refuse disposal services provided to the public by twenty landfill sites. The waste disposal program is financed by funds derived from gate fees at the San Bernardino Valley landfill sites and from land use fees charged to property owners in both the mountain and desert areas.

The County reports the following additional fund types in their fund financial statements:

- *Internal Service Funds* Account for printing services, records management, central mail, telephone services, computer operations, vehicle services, risk management, and flood control equipment operations that provide services to other departments or agencies of the County on a cost reimbursement basis

- The *Investment Trust Fund* accounts for the pooled investments of numerous self-governed school and special districts for which cash and investments are held by the County Treasurer. The financial reporting for these governmental entities, which are independent of the County, is limited to the total amount of cash and investments and other assets, and the related fiduciary responsibility of the County for disbursements of these assets. Activities of the school districts and special districts are administered by their own separate elected boards and are independent of the County Board of Supervisors. The County Auditor/Controller makes disbursements upon the request of the responsible school and self-governed district officers. The County Board of Supervisors has no effective authority to govern, manage, approve budgets, assume financial responsibility, establish revenue limits, nor to appropriate surplus funds available in these entities. Therefore, these entities are fiscally independent of the County.

- The *Agency Funds* account for assets held by the County as an agent for various local governments.

### (b) Basis of Accounting

The government-wide, proprietary, and investment trust fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting.

Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place.

Nonexchange transactions, in which the County gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes and sales taxes, grants, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenues from sales tax are recognized when the underlying transactions take place. Revenues from grants and donations are recognized in the fiscal year in which all eligible requirements have been satisfied.

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Property and sales taxes, interest, certain state and federal grants and charges for services are accrued when their receipt occurs within sixty days after the end of the accounting period, and recognized as revenue. The County considers items available if received within 9 months of year end, for voluntary non-exchange transactions such as federal and state grants. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences are recorded only when the payment is due. General capital assets acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and capital leases are reported as other financing sources.

Proprietary funds are used to account for business-type activities, which are financed mainly by fees and charges to users of the services provided by the funds' operations. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Pursuant to GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the County has elected not to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB) issued after November 30, 1989.

### (c) Capital Assets And Long-Term Debt

GASB Statement No. 34 eliminates the presentation of account groups, but provides for these records to be maintained and incorporates the information into the government-wide Statement of Net Assets.

### (d) Due From Other Governments

At June 30, 2003, the General Fund accrued $120,114 of receivables from other governments, of which $99,968 was due from the State of California. Of the amount owed by the State, $21,253 was for Health Care Services, $39,848 was for Public Social Services, $30,543 was for motor vehicle license fees and sales tax monies, and the remaining $8,324 was for other services. Amounts owed from cities for booking fees and other services were $6,732. The remaining amount of $13,414 was due from the federal government and other governmental agencies.

### (e) Taxes and Accounts Receivable

The $17,131 taxes receivable balance in the Governmental Activities column of the statement of net assets at June 30, 2003 is net of an allowance of doubtful accounts of $1,274. The $35,819 accounts receivable balance of the Medical Center Enterprise Fund at June 30, 2003 is net of an allowance for doubtful accounts of $214,564.

The $217 accounts receivable balance of the Fire Protection Districts – Ambulance Fund at June 30, 2003 is net of an allowance for doubtful accounts of $1,476. The $261 accounts receivable balance of the Crestline Sanitation District Fund at June 30, 2003 is net of an allowance for doubtful accounts of $148. These funds are reflected as part of the enterprise funds on the statement of net assets.

### (f) Deferred Revenue

In the fund financial statements, governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At June 30, 2003, the various components of *deferred revenue* and *unearned revenue* reported in the governmental funds were as follows.

| | Unavailable | Unearned | Total |
|---|---|---|---|
| **Governmental Activites** | | | |
| General Fund | | | |
| Developer Deposits | $ - | $ 3,037 | $ 3,037 |
| Property Tax Receivable | 12,801 | | 12,801 |
| Due from governmental agencies | - | 4,204 | 4,204 |
| Nonmajor funds | | | |
| Property Tax Receivable | 8,619 | - | 8,619 |
| Due from governmental agencies | - | 598 | 598 |
| Total Governmental Activities | $ 21,420 | $ 7,839 | $ 29,259 |

### (g) Cash and Cash Equivalents

For purposes of the statement of cash flows, the County considers all pooled investments and other highly liquid investments with maturity of three months or less when purchased to be cash equivalents.

### (h) Investments

The County's investments are governed by the California Government Code and the County's Investment Policy. These approved investments include U.S. Government Treasury and Agency securities, bankers' acceptances, commercial paper, medium term notes, mutual funds, repurchase agreements and reverse repurchase agreements as authorized by the Government Code Sections 53601, 53635 and 53638 which limit the investments to certain maximum percentages by investment type in the pool.

The County's investments and securities are reported at fair value based upon quoted market prices. Securities having no sales are valued based upon last reported bid prices. The County intends to either hold investments until maturity or until market values equal or exceed cost. The value of the various investments will fluctuate on a daily basis as a result of a multitude of factors, including generally prevailing interest rates and other economic conditions.

### (i) Inventories and Prepaid Items

Inventories, which consist principally of materials and supplies held for consumption, are valued at cost (first-in, first-out basis) for governmental fund types and at an amount which approximates the lower of average cost or market for proprietary fund types. Inventories of the governmental activities are accounted for as expenditures when the inventory items are consumed. In the fund financial statements, reported inventories are offset with a corresponding reservation of fund balance because these amounts are not available for appropriation and expenditure.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and the fund financial statements.

### (j) Property Taxes

The County levies, collects and apportions property taxes for all taxing jurisdictions within the County, including school and special districts. Property taxes are determined by applying approved rates to the assessed values of properties. The total 2002-03 gross assessed valuation of the County of San Bernardino was $ 75,443,000 (after deducting $ 19,957,000 for the redevelopment tax allocation increment).

Article XIIIA of the State of California Constitution limits the property tax levy to support general government services of the various taxing jurisdictions to $1.00 per $100.00 of assessed value. Taxes levied to service voter-approved debt prior to June 30, 1978 are excluded from this limitation.

Secured property taxes are levied in two equal installments, November 1 and February 1. They become delinquent with penalties on December 10 and April 10, respectively. The lien date is January 1 of each year. Unsecured property taxes are due on the March 1 lien date and become delinquent with penalties on August 31.

The term "unsecured" refers to taxes on personal property other than land and buildings. These taxes are secured by liens on the property being taxed. In the fund financial statements, property tax revenues are recognized in the fiscal year for which they are levied, provided they are due and collected within sixty days after fiscal year-end. Property taxes are recorded as deferred revenue when not received within sixty days after fiscal year-end. In the government – wide financial statements, property taxes are recorded as revenue when levied regardless of when the cash is collected.

### (k) Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (roadways, bridges, roadway signage, guardrails, drainage systems, traffic lights, dams, and flood control), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the County as assets with an initial, individual cost of more than $5,000.00 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Property, plant, equipment, and infrastructure of the primary government is depreciated using the straight line method over the following estimated useful lives:

| | |
|---|---|
| Infrastructure | 10 to 100 years |
| Structure and improvements | 45 years |
| Equipment | 5 to 15 years |

The County has six networks of infrastructure assets – roads, runways/taxiways, water/sewer, lighting, drainage, and flood control.

### (l) Employee Compensated Absences

Liabilities for vacation, holiday benefits, sick pay and compensatory time are accrued when incurred in the government-wide and proprietary fund financial statements. In the event of retirement or termination, an employee is paid 100% of accumulated vacation pay, and those with ten or more years of continuous services are paid 30% to 50% of their accumulated sick leave. Up to two times the annual vacation accrual rate may be carried over from one year to the next. In accordance with GASB Interpretation No. 6, a liability for these amounts is reported in the governmental funds financial statements only if they have matured, for example, as a result of employee resignations and retirements prior to year-end and are paid by the County subsequent to year-end.

### (m) Interfund Transactions

Interfund transactions are reflected as either loans, services provided, reimbursements or transfers. Loans are reported as receivables and payables as appropriate, are subject to elimination upon consolidation and are referred to as either "due to/from other funds" (i.e., the current portion interfund loans) or "Interfund receivables/payables"(i.e., the noncurrent portion of interfund loans). Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as “internal balances”. Interfund receivables, as reported in the fund financial statements, are offset by the fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not available financial resources.

Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide presentation.

### (n) Use of Estimates

The presentation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

## NOTE 3 – RESTATEMENT OF FUND EQUITY/NET ASSETS

### Closure and Postclosure Care Costs

GASB Statement No. 18 provides for changes in estimated closure and postclosure costs due to inflation or deflation, changes in technology, changes in closure/ postclosure care requirements, corrections of error in estimation, and changes in the extent of environmental remediation required. Changes in closure and postclosure cost estimates should be reported in the period in which the change is probable and reasonably estimable.

Preliminary closure and postclosure plans and estimated costs are prepared for the landfill permitting process. The permit plans and estimated costs are reviewed every five years for the renewal process. Two years prior to the landfill becoming inactive, a final closure/postclosure maintenance plan must be submitted to the State.

Based on the review of the renewal and final plan submissions, the estimated postclosure cost liability should have been reduced by $30,407 in prior fiscal years. Ending net asset balance for fiscal year ended June 30, 2002 is being restated by this prior period adjustment.

### Fund Reclassification

The County evaluated its non-major governmental funds and reclassified funds that did not meet the definition of special revenues and capital projects funds to enterprise funds. The fund reclassification also required the capital assets acquired by these funds to be moved from governmental activities to non-major business type activity funds.

## Revenue Recognition

The beginning fund balances of the funds described below have been increased due to the County's analysis of various deferred revenues. As such, the County and its component units determined items that met the availability criteria and are thus more appropriately revenues of the previous period.

## Other

Other restatements have been made to beginning fund balance/net assets for the correction of capital assets improperly capitalized in prior years and expense recognition pertaining to previous years.

**Restatements to the Fund-Type Financial Statements:**

| | General Fund | Nonmajor Governmental Funds | Waste Systems Division | Nonmajor Enterprise Funds | Internal Service Funds | Investment Trust Fund |
|---|---|---|---|---|---|---|
| Beginning Fund Balance/Net Assets (deficit), as previously reported | $ 279,485 | $ 309,773 | $ (44,977) | $ 79,446 | $ (3,036) | $ 1,338,662 |
| Closure and Postclosure Care Cost | - | - | 30,407 | - | - | - |
| Fund Reclassification | | (4,582) | | 10,156 | | |
| Revenue Recognition | 5,088 | 3,014 | | | | |
| Other | (2,005) | 122 | - | - | (675) | (574) |
| Beginning fund balance/Net Assets as restated | $ 282,568 | $ 308,327 | $ (14,570) | $ 89,602 | $ (3,711) | 1,338,088 |

**Restatements to the Government-Wide Financial Statements:**

| | Governmental Activities | Business-Type Activities |
|---|---|---|
| Beginning Net Assets, as previously reported | 876,345 | 11,672 |
| General Fund | 3,083 | - |
| Nonmajor Governmental Funds | (1,446) | - |
| Waste Systems Division | | 30,407 |
| Nonmajor Enterprise Funds | | 10,156 |
| Fund Reclassification | (6,329) | |
| Other | 566 | - |
| | 872,219 | 52,235 |

## NOTE 4 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Amounts reported for governmental activities in the statement of net assets are different from those reported for governmental funds in the balance sheet. The following provides a reconciliation of those differences.

| | Total Governmental Funds (Page 41) | Long-Term Assets and Liabilities (1) | Internal Service Funds (2) (Page 44) | Eliminations | Statement of Net Assets Totals (Page 37) |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| CASH AND CASH EQUIVALENTS | $ 527,570 | $ - | $ 76,927 | $ - | $ 604,497 |
| INVESTMENTS | 9,675 | - | - | - | 9,675 |
| ACCOUNTS RECEIVABLE - NET | 6,500 | - | 1,716 | - | 8,216 |
| TAXES RECEIVABLE | 32,915 | (15,784) | - | - | 17,131 |
| INTEREST RECEIVABLE | 675 | - | 173 | - | 848 |
| LOAN RECEIVABLE | 1,326 | - | - | - | 1,326 |
| OTHER RECEIVABLES | 1,387 | - | - | - | 1,387 |
| DUE FROM OTHER FUNDS | 52,555 | - | 582 | (53,137) | - |
| DUE FROM OTHER GOVERNMENTS | 143,283 | - | 458 | 11,938 | 155,679 |
| INTERNAL BALANCES | - | - | - | 22,003 | 22,003 |
| INVENTORIES | 2,099 | - | 1,425 | - | 3,524 |
| PREPAID ITEMS | 1,321 | - | 1,794 | - | 3,115 |
| DEFERRED CHARGES | - | - | 48 | - | 48 |
| INTERFUND RECEIVABLE | 175 | - | - | (175) | - |
| RESTRICTED CASH AND INVESTMENTS | 177,220 | - | - | - | 177,220 |
| OTHER ASSETS | 39 | - | - | - | 39 |
| LAND | - | 48,501 | - | - | 48,501 |
| STRUCTURES, IMPROVEMENTS, AND INFRASTRUCTURE | - | 1,529,491 | 7,049 | - | 1,536,540 |
| EQUIPMENT | - | 139,495 | 52,243 | - | 191,738 |
| ACCUMULATED DEPRECIATION AND AMORTIZATION | - | (691,855) | (39,519) | - | (731,374) |
| CONSTRUCTION IN PROGRESS | - | 75,058 | - | - | 75,058 |
| **TOTAL ASSETS** | $ 956,740 | $ 1,084,906 | $ 102,896 | $ (19,371) | $ 2,125,171 |
| **LIABILITIES** | | | | | |
| ACCOUNTS PAYABLE AND OTHER CURRENT LIABILITIES | $ 47,734 | $ - | $ 2,476 | $ - | $ 50,210 |
| SALARIES AND BENEFITS PAYABLE | 35,048 | - | 1,356 | - | 36,404 |
| DUE TO OTHER FUNDS | 17,186 | - | 1,760 | (18,946) | - |
| DUE TO OTHER GOVERNMENTS | 32,024 | - | - | - | 32,024 |
| INTEREST PAYABLE | 4,975 | - | - | - | 4,975 |
| DEFERRED REVENUE | 29,259 | (25,167) | 360 | - | 4,452 |
| INTERFUND PAYABLE | 400 | - | 25 | (425) | - |
| COMPENSATED ABSENCES PAYABLE | | 78,458 | 2,553 | - | 81,011 |
| BONDS AND NOTES PAYABLE | 170,000 | 1,060,234 | - | - | 1,230,234 |
| CAPITAL LEASE OBLIGATIONS | - | 5,250 | 1,744 | - | 6,994 |
| OTHER LONG TERM LIABILITIES | - | 17,930 | - | - | 17,930 |
| ESTIMATED LIABILITY FOR LITIGATION AND SELF-INSURED CLAIMS | - | - | 93,802 | - | 93,802 |
| DEFERRED AMOUNT ON REFUNDING | - | (7,348) | - | - | (7,348) |
| PREMIUM | - | 2,273 | - | - | 2,273 |
| DISCOUNT | - | (366,446) | - | - | (366,446) |
| **TOTAL LIABILITIES** | 336,626 | 765,184 | 104,076 | (19,371) | 1,186,515 |
| **FUND BALANCE/NET ASSETS** | 620,114 | 319,722 | (1,180) | - | 938,656 |
| **TOTAL LIABILITIES & FUND BALANCE/NET ASSETS** | $ 956,740 | $ 1,084,906 | $ 102,896 | $ (19,371) | $ 2,125,171 |

| | | | |
|---|---|---|---|
| **(1)** | Capital assets used in governmental activities that are not financial resources and, therefore, are not reported in the funds. | | |
| | Land | 48,501 | |
| | Structures, Improvements, and Infrastructure | $ 1,529,491 | |
| | Equipment | 139,495 | |
| | Accumulated Depreciation and Amortization | (691,855) | |
| | Construction in Progress | 75,058 | |
| | | | $ 1,100,690 |
| **(1)** | Other long-term assets that are not available to pay for current-period expenditures and, therefore, are deferred in the governmental funds. | | 9,383 |
| **(1)** | Long-term liabilities, including bonds payable, that are not due and payable in the current period and therefore are not reported in the funds. | | |
| | Compensated Absences Payable | (78,458) | |
| | Bonds and Notes Payable | (1,060,234) | |
| | Capital Lease Obligations | (5,250) | |
| | Other Long Term Liabilities | (17,930) | |
| | Deferred Amount on Refunding | 7,348 | |
| | Premium | (2,273) | |
| | Discount | 366,446 | |
| | | | (790,351) |
| | | | $ 319,722 |
| **(2)** | Internal service funds that are used by management to charge the costs of general services, telephone services, computer operations, vehicle services, risk management, and flood control equipment to individual funds. The assets and liabilities of the internal service funds are included in the governmental activities in the statement of net assets. | | $ (1,180) |

## NOTE 5 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

### (a) Budgetary information

In accordance with the provisions of Section 29000 – 29143 of the Government Code of the State of California, commonly known as the County Budget Act, the County prepares and adopts a budget on or before August 30, for each fiscal year. Budgets are adopted for the General Fund, certain Special Revenue Funds, and certain Capital Projects Funds. Budgets are prepared on the modified accrual basis of accounting, except that current year encumbrances are budgeted as expenditures.

Annual budgets are not adopted for the following funds: Community Services Department Special Revenue Fund, Pension Obligation Bonds Debt Service Fund and the Joint Powers Authorities Special Revenue, Debt Service and Capital Projects Funds.

The legal level of budgetary control is maintained at the object level and sub-object level for capital assets within departments. However, presentation of the basic financial statements at the legal level of control is not feasible due to excessive length. Because of the large volume of detail, the budget and the actual statements have been aggregated by function. The County does prepare a separate final budget document at the object and sub-object level that is made available to the public by the office of the Auditor/Controller.

Amendments or transfers of appropriations between funds or departments must be approved by the Board. Supplemental appropriations necessary and normally financed by unanticipated revenues during the year must also be approved by the Board. From time to time during the year, supplemental appropriations were necessary and approved by the Board. Amendments or transfers of appropriations between object levels within the same department may be approved by the Board or the County Administrative Office. Transfers at the sub-object level or cost center level may be done at the discretion of the department head. Any deficiency of the budgeted revenues and other financing sources over expenditures and other financing uses is financed by beginning available fund balances as provided in the County Budget Act.

### (b) Excess of Expenditures Over Appropriations

For fiscal year 2002-03, there were no instances in which expenditures exceed appropriations.

### (c) Net Deficits of Individual Funds

The Medical Center net deficit of $ 22,584 is expected to be eliminated in future years through rate increases and/or possible contributions from the General Fund.

The Waste System Division net deficit of $ 23,374 is expected to be eliminated in future years through rate increases and non-operating interest earnings on investments.

The Jobs and Employment Services net deficit of $31 is expected to be eliminated in future years through increases in government grants and other local reimbursements.

The Risk Management Division incurred a net deficit of $ 45,575 is expected to be eliminated over the next five years through rate increases.

### (d) Reconciliation of Budgetary Basis to GAAP Basis

The annual County Budget is prepared, approved and adopted in accordance with provisions of the County Budget Act. In preparing the budget, the County utilizes a basis of accounting which is different from the basis prescribed by generally accepted accounting principles ("GAAP"). The accompanying General Fund Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual on Budgetary Basis presents comparisons of the legally adopted budget and the actual data on a budgetary basis. The following adjustments are necessary to provide a meaningful comparison of the actual results of operations with the budget:

| | General Fund |
|---|---|
| Fund balance - budgetary basis | $ 270,032 |
| Outstanding encumbrances for budgeted funds | 15,542 |
| Fund balance - GAAP basis | $ 285,574 |

## Net Assets/Fund Balances

The government-wide and business-type activities fund financial statements utilize a net assets presentation. Net assets are categorized as invested capital assets (net of related debt), restricted and unrestricted.

- *Invested In Capital Assets, Net of Related Debt* – This category groups all capital assets, including infrastructure, into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets as well as any premium or discount paid on debt reduce the balance in this category.

- *Restricted Net Assets* – This category presents external restrictions imposed by creditors, grantors, contributors or laws or regulation of other governments and restrictions imposed by law through constitutional provisions or enabling legislation. Examples of restricted net assets include federal and state grants that are restricted by grant agreements for specific purposes and restricted cash set aside for debt service payments. At June 30, 2003, the County reported restricted net assets of $410,106 restricted for the following purposes:

| Restricted for: | Amount |
|---|---|
| Legally segregated special revenue funds for grants and other purposes | $ 243,946 |
| Debt Service | 48,947 |
| Capital project funds | 41,133 |
| Permanent funds | 514 |
| State Realignment Funds | 75,566 |
| | $ 410,106 |

- *Unrestricted Net Assets* – This category represents net assets of the County, not restricted for any project or other purpose.

In the fund financial statements, reserves and designations segregate portions of fund balance that are either not available or have been earmarked for specific purposes. The various reserves and designations are established by actions of the Board and management and can be increased, reduced or eliminated by similar actions.

Fund balances which are not available for appropriation at June 30, 2003 are reserved or designated for the following purposes:

*Reserved Fund Balance*

| | Governmental Activities | | |
|---|---|---|---|
| | General Fund | Nonmajor Funds | Total |
| Encumbrances | $ 15,542 | $ 47,087 | $ 62,629 |
| Prepaid Items | 1,489 | 1,000 | 2,489 |
| Noncurrent Interfund Receivables | 25 | 453 | 478 |
| Debt Service | - | 48,947 | 48,947 |
| Inventories | 1,166 | 933 | 2,099 |
| Loans Receivable | 1,457 | 144 | 1,601 |
| Deposits with Others | - | - | - |
| Teeter Plan | 9,077 | - | 9,077 |
| Total | $ 28,756 | $ 98,564 | $ 127,320 |

*Designated Fund Balance*

| | Governmental Activities | |
|---|---|---|
| | General Fund | Nonmajor Funds |
| General Purpose | $ 31,936 | $ - |
| Medical Center Debt Service | 32,075 | - |
| Justice Facilites | 4,886 | - |
| West Valley Maximum Security | 1,493 | - |
| Future Retirement Rate | 7,000 | - |
| Teeter Plan | 10,183 | - |
| Restitution | 2,114 | - |
| Equity Pool | 1,877 | - |
| Insurance | 5,000 | - |
| Electronic Voter System | 5,700 | - |
| Capital Projects | 4,000 | - |
| Total Designated Fund Balance | $ 106,264 | $ - |

## NOTE 6 – CASH AND INVESTMENTS

Cash and investments include the cash balances of substantially all funds which are pooled (the "pool") and invested by the County Treasurer for the purpose of increasing interest earnings through investment activities. The pool is not registered as an investment company with the Securities and Exchange Commission (SEC) nor is it an SEC Rule 2a7 – like pool. The pool does not issue a separate report. Included also are cash and investments held by certain joint powers authorities and cash held by various trustee financial institutions in accordance with the California Government Code.

### DEPOSITS

At June 30, 2003, the carrying amount of the County's deposits was $17,292 and the corresponding bank balance was $57,489. The difference of $40,197 was principally due to outstanding warrants, wires and deposits in transit. The County's deposits are categorized in the following manner:

Category 1 - Insured or collateralized with securities held by the County or by its agent in the County's name.

Category 2 - Collateralized with securities held by the pledging financial institution's trust department or agent in the County's name.

Category 3 - Uncollateralized or collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the County's name.

County deposits by category as of June 30, 2003 are as follows:

| | Category | | | |
|---|---|---|---|---|
| | 1 | 2 | 3 | Total |
| Bank Accounts | 373 | 0 | 57,116 | 57,489 |

### INVESTMENTS

The County's investments are governed by the California Government Code and the County's Investment Policy. These approved investments include U.S. Government Treasury and Agency securities, bankers' acceptances, commercial paper, medium term notes, mutual funds, repurchase agreements and reverse repurchase agreements as authorized by Government Code Sections 53601, 53635 and 53638 which limit the investments to certain maximum percentages by investment type in the pool.

Monies deposited in the County pool by the participants represent an individual interest in all assets and investments in the County pool based upon the amount deposited. Interest income, realized gains and losses are distributed quarterly to the pool participants, based upon their average daily balance. Unrealized gains and losses are distributed annually to the pool participants, based upon their average daily balance.

The County Treasurer determines the market-to-book value difference of the County pool on a monthly basis and provides monthly reports of its asset mix, average life, market value and other features to both the Board of Supervisors and the County Treasury Oversight Committee. The function of the Committee is to render unbiased and objective opinions on matters involving the Treasurer's investment of public funds. Specifically they are charged with: 1) reviewing of the annual Investment Policy Statement and any subsequent changes, 2) reviewing of the investment portfolio and reports for compliance with law and investment policy, and 3) causing an annual audit to be conducted on the pooled investment portfolio.

State law now requires that all operating monies of the County, school districts, and certain special districts be held by the County Treasurer. The net asset value associated with legally mandated participants in the asset pool was $2,645,716 at June 30, 2003.

As of June 30, 2003, the fair value of the County pool was $2.7 billion. Approximately 14% of the County pool is attributable to the County General Fund, with the remainder of the balance comprised of other County funds, school districts and special districts. Additionally, as of June 30, 2003, $60,897 of the amounts deposited in the County pool was attributable to depositors who are not required to, but choose to, invest in the County pool.

A summary of the investments held by the County Treasurer is as follows:

| Investment | Fair Value | Cost | Interest Rate % Range | Maturity Date |
|---|---|---|---|---|
| U.S. Government Securities | $ 1,370,793 | $ 1,353,927 | 0.75 - 5.80 | 07/01/03 - 06/18/07 |
| Repurchase Agreements | 350,003 | 350,000 | 1.15 - 1.45 | 07/01/03 |
| Municipal Bonds | 12,947 | 12,268 | 5.44 - 5.55 | 08/01/05 |
| Collateralized Certificates of Deposit | 10,008 | 10,000 | 1.3 | 10/28/03 |
| Negotiable Certificates of Deposit | 25,000 | 25,000 | 1.04 | 07/28/03 |
| Commercial Paper | 440,852 | 440,529 | 1.05 - 1.31 | 07/01/03 - 10/23/03 |
| Medium Term Notes | 145,035 | 145,216 | 1.35 - 3.15 | 08/15/03 - 07/26/04 |
| Mutual Funds | 351,975 | 351,975 | 1.02 | N/A |
| | $ 2,706,613 | $ 2,688,915 | | |

The following represents a condensed statement of net assets and changes in net assets for the Treasurer's investment pool as of June 30, 2003:

| **Statement of Net Assets** | | |
|---|---|---|
| Equity of internal pool participants | $ | 1,055,473 |
| Equity of external pool participants: | | |
| Voluntary | | 60,897 |
| Involuntary | | 1,590,243 |
| Total Net Assets held for pool participants | $ | 2,706,613 |

| **Statement of Changes in Net Assets** | | |
|---|---|---|
| Net Assets at July 1, 2002 | $ | 2,269,097 |
| Net change in investments by pool participants | | 437,516 |
| Net Assets at June 30, 2003 | $ | 2,706,613 |

In accordance with GASB Statement No. 3, the County's investments at June 30, 2003 are categorized separately to give an indication of the level of custodial credit risk assumed by the County. The County's investments are categorized in the following manner:

Category 1 - Includes investments that are insured or registered or for which the securities are held by the County or its agent in the County's name.

Category 2 - Includes uninsured and unregistered investments for which the securities are held by the counter party's trust department or agent in the County's name.

Category 3 - Includes uninsured and unregistered investments for which the securities are held by the counter party, or by its trust department or agent, but not in the County's name.

County investments by category as of June 30, 2003 are as follows:

| | Category 1 | Category 2 | Category 3 | Fair Value |
|---|---|---|---|---|
| U.S. Government Securities | $ 1,370,793 | $ - | $ - | $ 1,370,793 |
| Repurchase Agreements | 350,003 | - | - | 350,003 |
| Municipal Bonds | 12,947 | - | - | 12,947 |
| Collateralized Certificates of Deposit | 10,008 | - | - | 10,008 |
| Negotiable Certificates of Deposit | 25,000 | - | - | 25,000 |
| Commercial Paper | 440,852 | - | - | 440,852 |
| Medium Term Notes | 145,035 | - | - | 145,035 |
| Total Investments Controlled by County Treasurer | 2,354,638 | - | - | 2,354,638 |
| Investments Controlled by Fiscal Agents: | | | | |
| U.S. Government Securities | 1,659 | 39,649 | 67,042 | 108,350 |
| Total Categorized Investments | $ 2,356,297 | $ 39,649 | $ 67,042 | $ 2,462,988 |

Summary of Cash and Investments (in thousands):

| | |
|---|---|
| Total Categorized Investments at Fair Value | $ 2,462,988 |
| Total Deposits at Carrying Amount | 17,292 |
| Other Cash Funds (Imprest, Revolving) | 810 |
| Non-Categorized Mutual Funds | 376,514 |
| Non-Categorized Investments in Cash with Fiscal Agents (Guaranteed Investment Contracts) | 65,552 |
| Total Cash and Investments (Including Restricted Amounts) | $ 2,923,156 |

Total County Cash and Cash Equivalents, Investments and Restricted Cash and Investments and Restricted Cash and Investments are reported as follows (in thousands):

| | |
|---|---|
| Total Governmental Activities | $ 791,392 |
| Total Business-Type Activities | 203,356 |
| Total Agency Funds | 1,928,408 |
| Total Cash and Investments | $ 2,923,156 |

## NOTE 7 – INTERFUND TRANSACTIONS

***Due to/from other funds at June 30, 2003 are as follows:***

| Receivable Fund | Payable Fund | Amount |
|---|---|---|
| General Fund | Nonmajor Governmental Funds | $ 6,954 |
| | Medical Center | 19,318 |
| | Waste Systems Division | 5,494 |
| | Nonmajor Enterprise Funds | 37 |
| | Internal Service Funds | 248 |
| | Investment Funds | 207 |
| | Agency Funds | 3,954 |
| | | 36,212 |
| Nonmajor Governmental Funds | General Fund | 6,044 |
| | Nonmajor Governmental Funds | 1,793 |
| | Waste Systems Division | 613 |
| | Nonmajor Enterprise Funds | 38 |
| | Internal Service Funds | 1,479 |
| | Investment Funds | 1,999 |
| | Agency Funds | 4,377 |
| | | 16,343 |
| Medical Center | General Fund | 554 |
| | Agency Funds | 196 |
| | | 750 |
| Waste Systems Division | Agency Funds | 137 |
| | | 137 |
| Nonmajor Enterprise Funds | Agency Funds | 312 |
| | | 312 |
| Internal Service Funds | General Fund | 251 |
| | Nonmajor Governmental Funds | 104 |
| | Nonmajor Enterprise Funds | 5 |
| | Internal Service Funds | 33 |
| | Investment Funds | 6 |
| | Agency Funds | 183 |
| | | 582 |
| Investment Funds | General Fund | 87 |
| | Investment Funds | 163 |
| | Agency Funds | 8,616 |
| | | 8,866 |
| Agency Funds | General Fund | 1,399 |
| | Agency Funds | 14 |
| | | 1,413 |
| Total | | $ 64,615 |

Transfers are used to (1) move revenues from the fund required by statute or budget to collect them to the fund required by statute or budget to expend them, (2) move receipts identified for debt services from the funds collecting the receipts to the debt service funds as debt service payments become due, and (3) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorization.

***Interfund Receivable/Payable at June 30, 2003 are as follows:***

| Receivable Fund | Payable Fund | Amount |
|---|---|---|
| General Fund | Internal Service Funds | $ 25 |
| | | 25 |
| Nonmajor Governmental Funds | Nonmajor Governmental Funds | 150 |
| | | 150 |
| Agency Funds | Nonmajor Governmental Funds | 250 |
| | | 250 |
| Total | | $ 425 |

***Transfers To/From Other Funds for the year ended June 30, 2003 are as follows:***

Transfers are indicative of funding for capital projects, lease payments or debt service, subsidies of various County operations and re-allocations of special revenues. The following schedule briefly summarizes the County's transfer activity:

**(a) Between Governmental and Business-type Activities:**

| Transfer From | Transfer To | Amount |
|---|---|---|
| General Fund | Medical Center | $ 48,102 |
| | Nonmajor Enterprise Funds | 189 |
| | Waste Systems Division | 5,365 |
| | Internal Service Funds | 727 |
| | | 54,383 |
| Nonmajor Governmental Funds | Medical Center | 2 |
| | | 2 |
| Internal Service Funds | Nonmajor Governmental Funds | 902 |
| | | 902 |
| Waste Systems Division | General Fund | 5,000 |
| | Nonmajor Governmental Funds | 112 |
| | | 5,112 |
| Medical Center | Nonmajor Governmental Funds | 4,310 |
| | | 4,310 |
| Nonmajor Enterprise Funds | Nonmajor Governmental Funds | 2,222 |
| | | 2,222 |
| Total | | $ 66,931 |

**(b) Between Funds within the Governmental or Business-type Activities (1)**

| | | |
|---|---|---|
| General Fund | Nonmajor Governmental Funds | 82,988 |
| | | 82,988 |
| Nonmajor Governmental Funds | General Fund | 33,003 |
| | Nonmajor Governmental Funds | 12,078 |
| | | 45,081 |
| Internal Service Funds | Internal Service Funds | 2,365 |
| | | 2,365 |
| Total | | $ 130,434 |

(1) These transfers were eliminated in the consolidation, by column, for the Governmental and Business Type Activities.

Amounts transferred out of the General Fund to the Medical Center are the results of year-end budgeted transfer, and the annual transfer from health care cost to the Medical Center.

Amounts transferred from the General Fund to Nonmajor Governmental Funds are the results of the joint power authorities' debt service payments and the pension obligation bond debt service payments.

## NOTE 8 – RESTRICTED CASH AND INVESTMENTS

Cash and cash equivalents that are restricted by legal or contractual requirements at June 30, 2003 are comprised of the following:

### The General Fund

The General Fund has restricted cash and cash equivalents in the amount of $175,154 for the repayment of the Tax and Revenue Anticipation Notes ("TRANS"), and the interest thereon due July 1, 2003.

### Special Revenue Funds

*Flood Control District:*

The Flood Control District has set aside a total of $2,066 of cash and cash equivalents. $1,298 is to be used for the construction of the Etiwanda/San Sevaine and Day Creek Projects. $768 has been contractually set aside with an escrow agent for the payment of retention payables.

### Enterprise Funds

*Medical Center:*

Restricted cash and cash equivalents of $60,827 represent funds set aside for debt service payments.

*Waste System Division:*

Restricted cash and cash equivalents of $90,971 represent funds set aside as specified by bond covenants and for a waste water treatment facility, groundwater detection, treatment and remediation, and for State mandated site closure and maintenance costs.

## NOTE 9 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2003 was as follows:

| | Balance July 1, 2002 (as restated) | Additions | Decreases | Balance June 30,2003 |
|---|---|---|---|---|
| **Governmental Activities** | | | | |
| Capital assets, non-depreciable: | | | | |
| Land | $ 48,501 | $ - | $ - | $ 48,501 |
| Construction in progress | 66,389 | 43,519 | 34,850 | 75,058 |
| Total assets, non-depreciable | 114,890 | 43,519 | 34,850 | 123,559 |
| Capital Assets, depreciable: | | | | |
| Improvements other than Buildings | 103,357 | 12,683 | - | 116,040 |
| Structures and Improvements | 411,345 | 30,653 | 90 | 441,908 |
| Equipment | 193,931 | 20,244 | 22,437 | 191,738 |
| Infrastructure | 958,550 | 20,212 | 170 | 978,592 |
| Total assets-depreciable | 1,667,183 | 83,792 | 22,697 | 1,728,278 |
| Less accumulated depreciation for : | | | | |
| Improvements other than Buildings | 47,736 | 4,660 | | 52,396 |
| Structures and Improvements | 111,009 | 9,583 | | 120,592 |
| Equipment | 119,436 | 21,403 | 19,785 | 121,054 |
| Infrastructure | 414,738 | 22,594 | | 437,332 |
| Total accumulated depreciation | 692,919 | 58,240 | 19,785 | 731,374 |
| Total capital assets, depreciable, net | 974,264 | 25,552 | 2,912 | 996,904 |
| Governmental activities capital assets, net | $ 1,089,154 | $ 69,071 | $ 37,762 | $ 1,120,463 |
| **Business-type Activities** | | | | |
| Capital assets, non-depreciable: | | | | |
| Land | $ 39,400 | $ - | $ - | $ 39,400 |
| Construction in progress | 2,849 | 5,673 | 1,275 | 7,247 |
| Total assets, non-depreciable | 42,249 | 5,673 | 1,275 | 46,647 |
| Capital Assets, depreciable: | | | | |
| Improvements other than Buildings | 184,801 | 4,820 | 2,811 | $ 186,810 |
| Structures and Improvements | 532,713 | 448 | 688 | 532,473 |
| Equipment | 99,842 | 2,019 | 4,051 | 97,810 |
| Total capital assets-depreciable | 817,356 | 7,287 | 7,550 | 817,093 |
| Less accumulated depreciation for : | | | | |
| Improvements other than Buildings | 70,783 | 20,483 | 128 | 91,138 |
| Structures and Improvements | 71,522 | 13,791 | 848 | 84,465 |
| Equipment | 50,451 | 12,861 | 1,250 | 62,062 |
| Total accumulated depreciation | 192,756 | 47,135 | 2,226 | 237,665 |
| Total capital assets, depreciable, net | 624,600 | (39,848) | 5,324 | 579,428 |
| Business-type activities capital assets, net | $ 666,849 | $ (34,175) | $ 6,599 | $ 626,075 |

At July 1, 2002, the County made the following restatements to capital assets:

| | | |
|---|---|---|
| *Governmental Activities Capital Assets* as reported June 30, 2002 | $ | 1,095,504 |
| Record restatement of beginning balance-being equipment not recorded in prior year, net of depreciation | | 937 |
| Record restatement of beginning balance - being Land | | (1,703) |
| Record restatement of beginning balance-being CIP, Improvements other than buildings | | (4,626) |
| Record restatement of beginning accumulated depreciation. To adjust to actual | | (958) |
| Governmental activities capital assets as restated -- July 1, 2002 | $ | 1,089,154 |

| | | |
|---|---|---|
| *Business-type Activities Gross Capital Assets* as reported in the enterprise funds - June 30, 2002 | $ | 662,721 |
| Record equipment previously not reported as a capital asset | | 5 |
| Record restatement of beginning balance - being Land | | 2,332 |
| Record restatement of CIP, Land, Improvements other than Buildings, Structures and Improvements | | 3,126 |
| Record restatement of beginning accumulated depreciation. To adjust to actual | | (1,335) |
| Business-type activities capital assets as restated -- July 1, 2002 | $ | 666,849 |

**Depreciation**

Depreciation expense was charged to governmental functions as follows:

| | | |
|---|---|---|
| General Government | $ | 7,669 |
| Public Protection | | 17,065 |
| Public Ways and Facilities | | 27,386 |
| Health and Sanitation | | 706 |
| Public Assistance | | 2,773 |
| Education | | 217 |
| Recreation and Cultural Services | | 2,423 |
| Total depreciation expense - governmental functions | $ | 58,239 |

Depreciation expense was charged to the business-type functions as follows:

| | | |
|---|---|---|
| Medical Center | $ | 24,350 |
| Waste Systems Divison | | 20,181 |
| Nonmajor Funds | | 2,604 |
| Total depreciation expense - business type functions | $ | 47,135 |

**Construction in Progress**

Construction in Progress consists of thye following projects

| | Governmental Activities | Business-Type Activities |
|---|---|---|
| Chino airport and Other Airport Projects | $ 12,195 | $ 736 |
| High Desert Juvenile Facility | 15,257 | - |
| Various Flood Control Projects | 22,846 | - |
| Other Various Projects | 24,760 | 6,511 |
| Total | $ 75,058 | $ 7,247 |

## NOTE 10 – SELF INSURANCE

The County has self-insurance programs for public liability, property damage, unemployment insurance, employee dental insurance, hospital and medical malpractice liability and workers' compensation claims. Public liability claims are self-insured for up to $250 per occurrence. Excess insurance coverage up to $30 million is provided through a Risk Pool Agreement with California State Association of Counties (CSAC) Excess Insurance Authority ("EIA") Liability Program II. Workers' compensation claims are self-insured up to $1 million per occurrence and covered by an independent carrier for the balance up to $2 million for employer's liability and for workers' compensation statutory liability. Property damage claims are self-insured on an occurrence basis up to $25 and insured by the CSAC EIA Property Programs I and II.

The County supplements its self-insurance for medical malpractice claims with an insurance policy that provides annual coverage on an occurrence basis with deductibles of $1 for each claim and $5 for total annual claims. Maximum coverage under the policy is $20 million per occurrence with an additional $30 million in limits provided by the CSAC EIA General Liability II Program.

The activities related to such programs are accounted for in the Risk Management Fund (an Internal Service Fund) except for unemployment insurance and employee dental insurance, which are accounted for in the General Fund. The liabilities included in the Risk Management Fund are based upon the results of actuarial studies and include amounts for claims incurred but not reported and allocated loss adjustment expense. The liabilities for these claims are reported using a discounted rate of 5.00%.

The County has an investment agreement with National Westminster Bank to finance the self-insured general liability, automobile liability, workers' compensation and medical malpractice programs. Quarterly disbursements are received by the County for fund reserves and payment of claims. The County's investment in the agreements totaled $41,125 at June 30, 2003.

The claims liability of $93,802 reported at June 30, 2003 is based on the requirements of GASB Statement No. 10, Accounting and Financial Reporting for Risk Financing and Related Insurance Issues, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Changes in the claims liability amount in fiscal years 2002 and 2003 were:

| Fiscal Year | Beginning of Fiscal Year Liability | Current Year Claims and Changes in Estimates | Claims Payments | Balance at Fiscal Year-end |
|---|---|---|---|---|
| 2001-02 | $ 61,172 | 61,832 | (27,716) | $ 95,288 |
| 2002-03 | 95,288 | 30,685 | (32,171) | 93,802 |

## NOTE 11 – LONG TERM DEBT

The following is a summary of long-term liability transactions for the year ended June 30, 2003:

| **Governmental Activities** | Balance July 1, 2002 | Additions | Reductions | Ending Balance June 30, 2003 | Due Within One Year |
|---|---|---|---|---|---|
| Certificates of Participation, net | $ 249,756 | $ 64,296 | $ 81,412 | $ 232,640 | $ 7,535 |
| Revenue Bonds, net | 430,898 | 14,796 | 10,805 | 434,889 | 13,020 |
| Other Bonds and Notes | 21,499 | | 315 | 21,184 | 324 |
| Compensated Absences | 75,974 | 57,968 | 52,931 | 81,011 | 54,000 |
| Capital Lease Obligation | 8,682 | 2,140 | 3,828 | 6,994 | 2,483 |
| Estimated Liability for Litigation and Self -Insured Claims | 95,288 | 30,685 | 32,171 | 93,802 | 32,047 |
| Other Long-Term Liabilities | 18,177 | 1,378 | 1,625 | 17,930 | 165 |
| Total Governmental Activities - Long-term Liabiliites | $ 900,274 | $ 171,263 | $ 183,087 | $ 888,450 | $ 109,574 |

| **Business-type Activities** | Balance July 1, 2002 | Additions | Reductions | Ending Balance June 30, 2003 | Due Within One Year |
|---|---|---|---|---|---|
| Certificates of Participation, net | $ 622,057 | $ 93,532 | $ 20,850 | $ 694,739 | $ 26,540 |
| General Obligation Bonds | 2,979 | 3 | 325 | 2,657 | 387 |
| Revenue Bonds, net | 94,832 | 2,018 | 96,850 | - | - |
| Notes | 1,556 | 1,271 | 98 | 2,729 | 142 |
| Compensated Absences | 5,789 | 6,214 | 5,965 | 6,038 | 5,854 |
| Capital Lease Obligation | 669 | | 380 | 289 | 289 |
| Estimated Liability for Closure/ Postclosure Care Costs | 138,509 | 17,627 | 14,277 | - 141,859 | 11,501 |
| Total Business-type Activities - Long-term Liabilities | $ 866,391 | $ 120,665 | $ 138,745 | $ 848,311 | $ 44,713 |

Other Long-Term Liabilities include $11,362 relating to construction of the San Sevaine Creek Water Project, $6,165 relating to the San Timoteo Creek Project, $403 of loans from special districts.

At June 30, 2003 the $11,362 is owed to the United States Department of the Interior, Bureau of Reclamation, for construction of the San Sevaine Creek Water Project, and the $6,165 is owed to the United States Army Corp of Engineers ($6,000) and the City of Loma Linda Redevelopment Agency ($165) for the construction of the San Timoteo Creek Project. Amounts owed to the Bureau of Reclamation are determined annually until the project is completed (approximately 7 years) based on costs incurred but not exceeding $20 million. After the project completion, the County has 15 years to pay back the liability along with 7% interest. The loan payable to the United States Army Corp of Engineers will be paid back over 15 years after the completion of the project and interest will be charged at the federal prime rate in effect upon the completion of the project. The loan payable of $165 to the City of Loma Linda Redevelopment Agency is non-interest bearing and will be paid back over the next 3 years.

A summary of bonds and notes payable recorded in the governmental activities and payable from Debt Service Funds is as follows:

| Certificates of Participation | Interest Rates (%) | Issue Date | Maturity Date | Original Issue Amount | Outstanding as of 6-30-03 |
|---|---|---|---|---|---|
| Capital Improvement Refinancing (1996) | Variable | 06-21-96 | 11-01-25 | $ 9,200 | $ 8,400 |
| County Center Refinancing (1996) | Variable | 07-11-96 | 07-01-15 | 39,600 | 31,400 |
| Public Improvement Project (1997) | 3.85 to 5.00 | 10-01-97 | 10-01-25 | 17,790 | 15,560 |
| West Valley Detention Center (2001 A) | 4.00 to 4.60 | 10-25-01 | 11-01-18 | 8,365 | 8,365 |
| West Valley Detention Center (2001 B) | 3.50 to 4.00 | 10-25-01 | 11-01-12 | 42,075 | 41,710 |
| Justice Center/Airport Improvement | 3.00 to 5.00 | 03-01-02 | 07-01-16 | 68,100 | 68,100 |
| West Valley Detention Center (2002 A) | 4.50 to 5.25 | 08-6-02 | 11-01-18 | 44,480 | 44,480 |
| Glen Helen Blockbuster (2003 A) | Variable | 05-1-03 | 03-01-24 | 9,825 | 9,825 |
| Glen Helen Blockbuster (2003 B) | Variable | 05-1-03 | 03-01-24 | 9,875 | 9,875 |
| | | | | | 237,715 |
| Deferred Amount on Refunding: | | | | | |
| West Valley Detention Center (2001 B) | | | | | (2,819) |
| Justice Center/Airport Improvement | | | | | (2,894) |
| West Valley Detention Center (2002 A) | | | | | (1,270) |
| Glen Helen Blockbuster (2003 A & B) | | | | | (365) |
| Premium(Discounts): | | | | | |
| West Valley Detention Center (2001 B) | | | | | 581 |
| Justice Center/Airport Improvement | | | | | 446 |
| West Valley Detention Center (2002 A) | | | | | 1,246 |
| Net Certificates of Participation | | | | | 232,640 |
| **Revenue Bonds** | | | | | |
| Pension Obligation (1995) | 5.68 to 7.72 | 11-22-95 | 08-01-21 | 386,266 | 801,335 |
| (Discounts) | | | | | (366,446) |
| Net Revenue Bonds | | | | | 434,889 |
| **Other Bonds and Notes** | | | | | |
| San Sevaine Redevelopment Bonds | 5.30 to 6.85 | 03-01-00 | 09-01-29 | 19,770 | 19,245 |
| County Library | 3.41 | 07-18-01 | 02-01-31 | 1,982 | 1,939 |
| Subtotal | | | | | 21,184 |
| Total Bonds And Notes Payable | | | | | $ 688,713 |

A summary of bonds and notes payable recorded in the business-type activities is as follows:

| **Medical Center** | **Interest Rates (%)** | **Issue Date** | **Maturity Date** | **Original Issue Amount** | **Outstanding as of 6-30-03** |
|---|---|---|---|---|---|
| Certificates of Participation: | | | | | |
| Medical Center Project (Series 1994) | 4.60 to 7.00 | 02-01-94 | 08-01-28 | $ 283,245 | $ 199,460 |
| Medical Center Project (Series 1995) | 4.80 to 7.00 | 06-01-95 | 08-01-22 | 363,265 | 133,570 |
| Medical Center Project (Series 1996) | 5.00 to 5.25 | 01-01-96 | 08-01-28 | 65,070 | 65,070 |
| Medical Center Project (Series 1997) | 4.30 to 5.50 | 09-01-97 | 08-01-08 | 121,095 | 86,650 |
| * Medical Center Project (Series 1998) | 4.1895 | 10-22-98 | 08-01-26 | 176,510 | 176,510 |
| | | | | | 661,260 |
| Less: | | | | | |
| Deferred Amount on Refunding | | | | | (43,274) |
| Discounts | | | | | (14,361) |
| Subtotal | | | | | 603,625 |
| **Waste Systems Division** | | | | | |
| Certificates of Participation | | | | | |
| Solid Waste Financing (Series 2003 B) | Variable | 05-01-03 | 03-01-17 | 93,875 | 93,875 |
| Less: | | | | | |
| Deferred Amount on Refunding | | | | | (2,761) |
| Subtotal | | | | | 91,114 |
| Net Certificates of Participation | | | | | 694,739 |
| **County Service Areas** | | | | | |
| General Obligation Bonds: | | | | | |
| Spring Valley Lake Sewer Facilities: | | | | | |
| Series A | 6.50 to 6.75 | 02-15-72 | 02-15-02 | 1,300 | 15 |
| Series B | 6.10 to 6.15 | 04-01-74 | 04-01-04 | 1,000 | 105 |
| Helendale Sewer Facilities: | | | | | |
| Series A | 5.00 | 06-01-78 | 06-01-98 | 1,550 | 5 |
| Helendale Water Facilities: | | | | | |
| Series B | 7.00 | 09-01-82 | 06-01-97 | 1,450 | 5 |
| Pinon Hills Water Distribution: | | | | | |
| Series A | 5.00 | 03-01-78 | 03-01-18 | 1,708 | 1,032 |
| Series B | 5.00 | 03-01-78 | 03-01-18 | 275 | 150 |
| Series C | 9.00 to 11.00 | 11-01-84 | 03-01-05 | 1,518 | 335 |
| Landers Water Distribution System | 5.00 | 06-01-79 | 06-01-19 | 1,540 | 1,005 |
| Oak Hills Water Distribution Facilities | 7.00 | 09-01-74 | 09-01-94 | 750 | 5 |
| General Obligation Bonds | | | | | 2,657 |
| Notes Payable: | | | | | |
| Morongo Valley Water Facilities (Note) | 4.50 | 05-06-64 | 05-06-04 | 50 | 3 |
| Hacienda Water Facilities | 5.00 | 07-14-67 | 07-14-07 | 114 | 24 |
| Crestline Sanitation District | | 11-01-95 | 10-01-17 | 2,160 | 1,417 |
| Morongo Valley Water Facilities (Loan) | | 08-17-99 | 08-17-04 | 80 | 51 |
| Pinon Hills Water | | 12-17-02 | 12-17-32 | 1,234 | 1,234 |
| Notes Payable | | | | | 2,729 |
| Total Business-type Activities | | | | | $ 700,125 |

County Service Area 70, Improvement Zone L (CSA 70L) and the California Infrastructure and Economic Development Bank (CIEDB) entered into an agreement dated December 17, 2002 for the funding of a water tank project. Under the terms of the agreement, the project construction must begin no later than twelve months after May 28, 2002 and invoices must be to CIEDB for the entire amount of the project fund of $5,001 no later than thirty-five months after December 17, 2002. As of June 30, 2003, a total of $1,234 was approved and received from

CIEDB. CIEDB is authorized to issue tax-exempt bonds pursuant to the Bergeson-Peace Infrastructure and Economic Development Bank Act. This agreement will be pledged as security upon issuance of the tax-exempt bonds. It is anticipated that the bonds will be issued in December 2003. The terms of the agreement is for thirty 30 years with interest at 3.5% per annum upon the issuance of the bonds. Prior to the issuance of the bonds, interest only payments are required at 3.24% per annum.

Not included above, but carried in the Debt Service Fund, are $20 in matured bearer bonds payable for the Chino Civic Center Authority, a JPA that financed the Chino library facility.

General Obligation Bonds are issued to provide funds for the acquisition and construction of major capital facilities. These bonds are backed by the full faith and credit of the County, and revenue for the retirement of such bonds is provided by ad valorem taxes on property within the jurisdiction of the governmental unit issuing the bonds.

Certificates of Participation (COP) are secured by annual lease payments payable by the County for use of the facilities constructed or acquired from the COP proceeds. The County has created nonprofit organizations and joint powers authorities to issue the Certificates. The County leases various projects from the authorities. The lease payments are used by the authorities to pay interest on, and principal of, the COPs.

The Certificates of Participation contain certain bond covenants, which are deemed by the County to be duties imposed by law. The County must include the applicable lease-purchase payments due each year in its annual budget and make the necessary appropriations. The County is also covenanted to maintain certain levels of liability, property damage, casualty, rental interruption and earthquake insurance in connection with each lease-purchase agreement. The County is in compliance with all significant financial restrictions and requirements as set forth in its various debt covenants.

In prior years, the County has defeased certain Certificates of Participation by placing the proceeds of new certificates in an irrevocable trust to provide for all future debt service payments on the old certificates. Accordingly, the trust account assets and the liability for the defeased certificates are not included in the County's basis financial statements. At June 30, 2003, approximately $301,990 of outstanding debt is considered defeased.

One of the joint powers authorities issued revenue bonds in November 1995 for the purpose of enabling the County to finance outstanding pension indebtedness. The net outstanding balance of the revenue bonds at June 30, 2003 is $434,889.

The following is a schedule of principal debt service requirements to maturity as of June 30, 2003 for bonds and notes payable in the governmental activities:

| Years Ending June 30 | Certificates of Participation | Revenue Bonds | Other Long-Term Debt | Total |
|---|---|---|---|---|
| 2004 | $ 7,535 | $ 13,020 | $ 324 | $ 20,879 |
| 2005 | 10,265 | 15,480 | 346 | 26,091 |
| 2006 | 12,695 | 18,200 | 362 | 31,257 |
| 2007 | 13,195 | 21,200 | 383 | 34,778 |
| 2008 | 13,730 | 24,510 | 405 | 38,645 |
| 2009-2013 | 75,480 | 183,675 | 2,390 | 261,545 |
| 2014-2018 | 79,235 | 263,925 | 3,230 | 346,390 |
| 2019-2023 | 20,355 | 261,325 | 4,430 | 286,110 |
| 2024-2028 | 5,225 | | 6,137 | 11,362 |
| 2029-2033 | | | 3,177 | 3,177 |
| Total Principal | 237,715 | 801,335 | 21,184 | 1,060,234 |
| Plus Premium | 2,273 | | | 2,273 |
| Less: | | | | |
| Deferred Amount on Refunding | (7,348) | | | (7,348) |
| Discount | | (366,446) | | (366,446) |
| Total Bonds and Notes Payable | $ 232,640 | $ 434,889 | $ 21,184 | $ 688,713 |

The following is a schedule of interest expense requirements to maturity as of June 30, 2003 for bonds and notes payable in the governmental activities:

| Years Ending June 30 | Certificates of Participation | Revenue Bonds | Other Long-Term Debt | Total |
|---|---|---|---|---|
| 2004 | $ 8,397 | $ 15,440 | $ 1,375 | $ 25,212 |
| 2005 | 8,099 | 14,500 | 1,358 | 23,957 |
| 2006 | 7,752 | 13,377 | 1,340 | 22,469 |
| 2007 | 7,347 | 12,053 | 1,320 | 20,720 |
| 2008 | 6,929 | 10,504 | 1,298 | 18,731 |
| 2009-2013 | 27,517 | 21,015 | 6,115 | 54,647 |
| 2014-2018 | 12,327 | | 5,281 | 17,608 |
| 2019-2023 | 1,620 | | 4,077 | 5,697 |
| 2024-2028 | 212 | | 2,377 | 2,589 |
| 2029-2033 | | | 329 | 329 |
| Total Interest | $ 80,200 | $ 86,889 | $ 24,870 | $ 191,959 |

The following is a schedule of principal debt service requirements to maturity as of June 30, 2003 for bonds and notes payable in the business-type activities:

| Years Ending June 30 | Certificates of Participation | General Obligation Bonds | Notes Payable | Total |
|---|---|---|---|---|
| 2004 | $ 26,540 | $ 387 | $ 142 | $ 27,069 |
| 2005 | 27,960 | 280 | 92 | 28,332 |
| 2006 | 29,500 | 110 | 93 | 29,703 |
| 2007 | 31,185 | 115 | 95 | 31,395 |
| 2008 | 32,930 | 120 | 89 | 33,139 |
| 2009-2013 | 127,780 | 690 | 1,705 | 130,175 |
| 2014-2018 | 136,085 | 860 | 513 | 137,458 |
| 2019-2023 | 132,745 | 95 | | 132,840 |
| 2024-2028 | 170,795 | | | 170,795 |
| 2029-2033 | 39,615 | | | 39,615 |
| Total Principal | 755,135 | 2,657 | 2,729 | 760,521 |
| Less: | | | | |
| Deferred Amount on Refunding | (46,035) | | | (46,035) |
| Discount | (14,361) | | | (14,361) |
| Total Bonds and Notes Payable | $ 694,739 | $ 2,657 | $ 2,729 | $ 700,125 |

The following is a schedule of interest expense requirements to maturity as of June 30, 2003 for bonds and notes payable in the business-type activities:

| Years Ending June 30 | Certificates of Participation | General Obligation Bonds | Notes Payable | Total |
|---|---|---|---|---|
| 2004 | $ 34,644 | $ 146 | $ 26 | $ 34,816 |
| 2005 | 33,417 | 121 | 24 | 33,562 |
| 2006 | 32,064 | 100 | 22 | 32,186 |
| 2007 | 30,618 | 94 | 20 | 30,732 |
| 2008 | 29,102 | 88 | 18 | 29,208 |
| 2009-2013 | 125,616 | 345 | 69 | 126,030 |
| 2014-2018 | 99,474 | 157 | 27 | 99,658 |
| 2019-2023 | 68,314 | 5 | | 68,319 |
| 2024-2028 | 30,801 | | | 30,801 |
| 2029-2033 | 972 | | | 972 |
| Total Interest | $ 485,022 | $ 1,056 | $ 206 | $ 486,284 |

## Non-Obligation Debt

The County issues Single Family Mortgage Revenue Bonds to provide funds to purchase mortgage loans secured by first trust deeds on newly constructed and existing single-family residences. Additionally, the County issues Multi-Family Mortgage Revenue Bonds to finance the construction of multi-family apartment projects in the County. These programs assist persons and families of low and moderate income within the County to afford the costs of decent, safe and sanitary housing. The bonds will be payable solely from and secured by a pledge of payment received on the acquired mortgage loans, certain insurance with respect thereto, and other monies pledged under the bond resolution. The bonds do not represent a liability of the County and, as such, do not appear in the accompanying basic financial statements.

The County acts as an agent for the property owners benefited by the projects financed from special assessment bond proceeds, in collecting the assessments, forwarding the collections to bondholders and initiating foreclosure proceedings, if appropriate. Special assessment bonds ($3,245 at June 30, 2003) do not represent a liability of the County and, as such, do not appear in the accompanying basic financial statements.

## NOTE 12 – INTEREST RATE SWAP

*Objective of the interest rate swap.* As a means to lower financing costs, and to reduce the risks to the County associated with the fluctuation in market interest rates, the County entered into an interest rate swap in connection with the Medical Center Series 1998A Certificates of Participation (COP) in the amount of $176,510. The intention of the swap was to effectively change the variable interest rate on the bonds to a synthetic fixed-rate of 4.1895 percent.

*Terms.* The COPs and the related swap agreement mature on August 1, 2026, and the swap's notional amount of $176,510 matches the $176,510 variable-rate COPs. The swap was effective at the same time the COPs were issued on October 22, 1998. Starting in fiscal year 2008-09, the notional value of the swap and the principal amount of the associate debt decline. Under the swap agreement, through August 1, 2005, the County pays Merrill Lynch a fixed rate of 4.1895 percent and Merrill Lynch pays the County an amount equal to the variable rate interest payable on the outstanding COPs. After August 1, 2005 the County pays Merrill Lynch Capital Services (MLCS), Inc. a fixed payment of 4.1895 percent and receives from Merrill Lynch a variable payment computed as 73 percent of the monthly London Interbank Offered Rate (LIBOR). Conversely, the COP's variable-rate coupons have historically been similar to the Bond Market Association Municipal Swap Index (BMA).

*Fair Value.* Because interest rates have declined since execution of the swap, the swap had a negative fair value of $18,712 as of June 30, 2003. The swap's negative fair value may be countered by a reduction in total interest payments required under the variable-rate bonds, creating a lower synthetic interest rate. Because the coupons on the Medical Center variable-rate COPs adjust to changing interest rates, the COPs do not have a corresponding fair value increase. The fair value was the quoted market price from Merrill Lynch & Co. at June 30, 2003.

*Credit Risk.* The swap counterparty was rated Aa3 by Moody's and A+ by Standard & Poor as of June 30, 2003. The swap agreement specifies that if the long-term senior unsecured debt rating of Merrill Lynch & Co. is withdrawn, suspended or falls below A- (Standard & Poor) or A3 (Moody's), a collateral agreement will be executed within 30 days or the swap agreement will terminate.

*Basis Risk.* The swap exposes the County to basis risk should the relationship between LIBOR and BMA converge, changing the synthetic rate on the COPs. If a change occurs that results in the rates moving to convergence, the expected cost savings may not be realized. As of June 30, 2003, the BMA rate was .98 percent, whereas 73 percent of LIBOR was .8176 percent.

*Termination Risk.* The County or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract. The swap may be terminated by the County if MLCS credit quality rating falls below A- as issued by Standard & Poor or A3 by Moody's. If the swap is terminated, the variable-rate COP would no longer carry a synthetic interest rate. Also, if at the time of termination the swap has a negative fair value, the County would be liable to the MLCS for a payment equal to the swap's fair value.

*Swap payments and associated debt.* Using rates as of June 30, 2003, debt service requirements of the variable-rate debt and net swap payments, assuming current interest rate remain the same for their term, were as follows. As rates vary, variable-rate COP interest payments and net swap payments will vary.

| | Variable-Rate Bonds | | Interest Rate | |
|---|---|---|---|---|
| Fiscal Year | Principal | Interest | Swaps, Net | Total |
| 2003/04 | $ - | $ 1,730 | $ 5,665 | $ 7,395 |
| 2004/05 | - | 1,730 | 5,665 | 7,395 |
| 2005/06 | - | 1,730 | 5,665 | 7,395 |
| 2006/07 | - | 1,730 | 5,665 | 7,395 |
| 2007/08 | - | 1,730 | 5,665 | 7,395 |
| 2008-2027 | 176,510 | 20,403 | 66,820 | 263,733 |
| | $ 176,510 | $ 29,053 | $ 95,145 | $ 300,708 |

## NOTE 13 – ADVANCE REFUNDINGS

West Valley Detention Center Project: On October 25, 2001 the County issued "2001 Series A" Certificates of Participation in the amount of $8,365 and "2001 Series B" Certificates of Participation in the amount of $42,075. The 2001 Series A Certificates bear interest rates from 4.00 percent to 4.60 percent. The 2001 Series B Certificates bear interest rates from 3.50 percent to 4.00 percent.

On August 6, 2002 the County issued "2002 Series A" Certificates of Participation in the amount of $44,480 which bear interest rates from 4.50 percent to 5.25 percent.

The proceeds from the issuance of the 2001 Series A and 2002 Series A Certificates of Participation were used to refund $52,330 of the outstanding 1992 Certificate.

As a result of the refunding, the County has potentially reduced its debt requirements by $3,169. This results in an economic gain (difference between the present value of debt service payments in the old and the new debt) of $3,167

*Glen Helen Blockbuster Project:* On May 1, 2003 the County issued Certificates of Participation in the amount of $19,700, consisting of $9,825 (the "Series 2003 A Certificates") and $9,875 (the "Series 2003 B Certificates") with March 1, 2024 final maturity date. Interest with respect to the Series 2003 A Certificates is payable at an adjustable weekly rate determined pursuant to the Dutch Auction procedures, with the maximum rate being 12% per annum. Interest with respect to the Series B Certificates is payable every fourth Thursday after May 8, 2003 at an adjustable rate determined pursuant to the Dutch Auction procedures, with the maximum rate being 17% per annum.

The proceeds from the issuance of the Series 2003A and 2003 B Certificates of Participation were used to prepay $6,035 outstanding principal amount of Series C Certificated issued in 1994, $9,690 outstanding principal amount of Series D Certificates issued in 1994 and $3,610 outstanding principal amount of Series D Certificates issued in 1995.

As a result of the current refunding, the County has potentially reduced its debt requirements by $982. This results in an economic gain (difference between the present value of debt service payments in the old and new debt) of $810. Since the interest rate on both the new and old debt is a variable interest rate, the interest rate on the date of refunding was used to estimate the debt service requirements.

*Solid Waste Financing Project:* On May 1, 2003 the County issued Certificates of Participation in the amount of $93,875 (the Series 2003 B Certificates) with March 1, 2017 final maturity date. The descriptions pertaining to Series B Certificates (Glen Helen Blockbuster Project) are applicable to these Series 2003 B as they were issued together as the 2003 Refunding Certificates.

The proceeds from the issuance of the Series B Certificates of Participation were used to prepay $92,120 outstanding principal amount of "Series A" Certificates issued in 1999.

As a result of the advance refunding, the Solid Waste Management Division has potentially reduced its debt requirements by $1,436. This results in an economic gain (difference between the present value of debt service payments in the old and new debt) of $390.

## NOTE 14 – LEASES

### *Capital Leases*

The County has entered into certain capital lease agreements under which the related equipment will become the property of the County when all terms of the lease agreements are met.

Equipment and related accumulated amortization under capital lease are as follows:

| | Governmental Activities | Business-type Activities |
|---|---|---|
| Asset: | | |
| Equipment | $ 12,823 | $ 274 |
| Less: Accumulated depreciation | 5,371 | 4 |
| Total | $ 7,452 | $ 270 |

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2003, were as follows:

| Year Ending June 30: | Governmental Activities | Business-type Activities |
|---|---|---|
| 2004 | $ 2,761 | $ 299 |
| 2005 | 1,655 | - |
| 2006 | 1,076 | - |
| 2007 | 938 | - |
| 2008 | 739 | |
| 2009-2013 | 561 | - |
| Total Minimum Lease Payments | 7,730 | 299 |
| Less: Amount Representing Interest | 736 | 10 |
| Present Value of Minimum Lease Payments | $ 6,994 | $ 289 |

### *Operating Leases*

The following is a schedule by years of future minimum rental payments, principally for the General Fund, required under operating leases entered into by the County that have initial or remaining non-cancelable lease term in excess of one year as of June 30, 2003:

| Year Ending June 30, | |
|---|---|
| 2004 | $ 26,440 |
| 2005 | 23,103 |
| 2006 | 20,110 |
| 2007 | 16,430 |
| 2008 | 13,711 |
| 2009-2013 | 17,924 |
| 2014-2018 | 1,667 |
| Total Minimum Payments | $ 119,385 |

The County incurred rental expenditures of $24,640, principally in the General Fund, for the year ending June 30, 2003.

## NOTE 15 – COLLATERIZED FACILITIES

The following County Facilities have been pledged as collateral in certain County financing transactions:

| Facilities | Beginning | Additions | Deletions | Ending |
|---|---|---|---|---|
| Foothill Law and Justice | $ 42,642 | | | $ 42,642 |
| Victorville Law Center | 8,644 | | | 8,644 |
| West Valley Detention Center | 146,327 | | | 146,327 |
| Public Health Bldg | 1,102 | | 1,102 | - |
| Courthouse & Annex | 9,450 | | | 9,450 |
| Mid-Valley Landfill | 59,260 | | | 59,260 |
| West Valley Juvenile Detention Center | 5,077 | | | 5,077 |
| Information Services Bldg | 500 | | | 500 |
| Glen Helen Rehabilitation Center | 10,486 | | 10,486 | - |
| Sheriff's Academy | 5,539 | | 5,539 | - |
| Central Jail | 10,819 | | | 10,819 |
| Offices and Bindery | 4,247 | | | 4,247 |
| Vehicle Services Garage | 3,469 | | | 3,469 |
| Coroner's Office | 1,212 | | | 1,212 |
| Fontana Government Center | 566 | | | 566 |
| Fontana Government Center | 2,274 | | | 2,274 |
| Arrowhead Regional Medical Center | 490,481 | | | 490,481 |
| Sheriff Emergency Vehicle OC | 1,491 | | 1,491 | - |
| Hall of Records (New) | 12,666 | | | 12,666 |
| Hall of Records (Old) | 2,054 | | | 2,054 |
| Glen Helen Pavilion Ampitheather | 26,174 | | | 26,174 |
| Civic Center | 5,117 | | | 5,117 |
| Sheriff's Admin Bldg | 13,416 | | | 13,416 |
| County Gov Center | 25,711 | | | 25,711 |
| | $ 888,724 | | $ 18,618 | $ 870,106 |

The Public health building was released as part of the 2001/2002 West Valley Detention Center Refinancing. The Glen Helen Rehab Center and Sheriff's Academy were released when the 1996A Solid Waste Bonds matured in 2003. The Sheriff's Emergency Vehicle Operations Center was released when Glen Helen Series C, D, and E bonds were refunded in 2003.

## NOTE 16 – MEDICARE AND MEDI-CAL PROGRAMS

The Medical Center provides services to eligible patients under Medi-Cal and Medicare programs. For the years ended June 30, 2003 and 2001, the Medi-Cal program represented 46% and 45%, and the Medicare program represented approximately 11% and 12%, respectively, of the Medical Center's net patient service revenues. Medi-Cal inpatient services are reimbursed at contractually agreed-upon per diem rates and outpatient services are reimbursed under a schedule of maximum allowances. Medicare inpatient services are reimbursed based upon pre-established rates for diagnostic-related groups. Outpatient services and defined capital and medical education costs related to Medicare beneficiaries are paid based on a cost-reimbursement methodology. Final reimbursement is determined as a result of audits by the intermediary of annual cost reports submitted by the Medical Center. Reports on the results of such audits have been received through June 30, 2002 for Medicare and Medi-Cal. Adjustments as a result of such audits are recorded in the year the amount can be determined.

## NOTE 17 – CLOSURE AND POSTCLOSURE CARE COST

State Financial Assurance Mechanism regulations require landfill operators to set aside funds, or provide alternative funding mechanisms, to fund the closure and postclosure maintenance of landfills. The funding must be completed prior to the final date of closure. These regulations apply only to those landfills operating prior to 1989. The closure and postclosure care costs of other landfills not subject to these State regulations are funded separately in the Site Closure and Maintenance Fund.

Closure and postclosure care costs include, but are not limited to, such items as final cover, groundwater monitoring, well installations and landfill gas monitoring systems.

The twenty (20) landfills listed below (with their capacity used and estimated remaining lives) are those currently subject to the State regulations:

| ***LANDFILL*** | **Capacity Used** | ***YEARS*** **Remaining** | ***LANDFILL*** | **Capacity Used** | ***YEARS*** **Remaining** |
|---|---|---|---|---|---|
| Apple Valley | 33% | Inactive | Milliken | 92% | Inactive |
| Baker | 6% | Inactive | Morongo Valley | 81% | Inactive |
| Barstow | 92% | 6 | Needles | 100% | Inactive |
| Big Bear | 100% | Inactive | Newberry Springs | 100% | Inactive |
| Colton | 88% | 3 | Phelan | 60% | Inactive |
| Hesperia | 55% | Inactive | San Timoteo | 52% | 4 |
| Landers | 77% | 18 | Trona-Argus | 18% | Inactive |
| Lenwood-Hinkley | 6% | Inactive | Twentynine Palms | 14% | Inactive |
| Lucerne Valley | 100% | Inactive | Victorville | 87% | 3 |
| Mid-Valley | 99% | 1 | Yermo | 70% | Inactive |

The landfill closure and postclosure care cost estimates of $111,287 and $101,520, respectively, are based upon the most recently submitted Closure/Postclosure Maintenance Plan documents filed with the State and Federal permitting agencies. If, at some future date, these closure cost estimates are adjusted (due to changes in inflation, technology, regulations, etc.), the County is required to make corresponding changes in the amount of funds deposited for closure.

Each year a portion of each landfill's estimated closure and postclosure cost is recognized as an expense and liability based upon the amount of capacity used during the year. As of June 30, 2003, the cumulative liability recorded by the County based upon individual landfill capacity usage was $186,543. The remaining $26,264 of estimated closure and postclosure costs will be recorded and funded as landfill capacity is used. Closure and postclosure related expenditures of $44,684 have been paid which reduced the landfill closure and postclosure liability to $141,859 at June 30, 2003.

Current State regulations allow public agencies to demonstrate financial assurance for postclosure maintenance costs through a “pledge of revenue” mechanism. This mechanism allows agencies to pledge a reliable future revenue source to fund the required postclosure maintenance at each landfill site for thirty years after landfill closure. The County has pledged a portion of its future tipping fees and investment earnings from the Waste Systems Division enterprise funds to fund these costs.

## NOTE 18 – RETIREMENT PLAN

### *Plan Description*

The San Bernardino County Employees' Retirement Association (SBCERA) is a cost-sharing multiple-employer defined benefit pension plan (the "Plan") operating under the California County Employees Retirement Act of 1937 ("1937 Act"). It provides retirement, death, and disability benefits to members. Although legally established as a single employer plan, the City of Big Bear Lake, the City of Chino Hills, the California State Association of Counties, the San Bernardino County Law Library, Crest Forest Fire Protection District, Mojave Desert Air Quality Management District (MDAQMD) and the South Coast Air Quality Management District (the "AQMD"), were later included, along with the County of San Bernardino (the "County"), and are collectively referred to as the "Participating Members". The plan is governed by the San Bernardino Board of Retirement under the 1937 Act. Employees become eligible for membership on their first day of regular employment and become fully vested after 5 years. SBCERA issues a stand-alone financial report, which may be obtained by contacting the Board of Retirement, 348 W Hospitality Lane - 3$^{rd}$ floor, San Bernardino, California 92415-0014.

### *Fiduciary Responsibility*

The Retirement Association is controlled by its own board, the Retirement Board, which acts as a fiduciary agent for the accounting and control of member and employee contributions and investment income. The Retirement Association publishes its own Comprehensive Annual Financial Report and receives a separate independent audit. The Retirement Association is also a legally separate entity from the County and not a component unit. For these reasons, the County's Comprehensive Annual Financial Report excludes the Retirement Association pension trust fund as of June 30, 2003.

### *Funding Policy*

Participating members are required by statute (Sections 31621, 31621.2 and 31639.25 of the California Government Code) to contribute a percentage of covered salary bases on certain actuarial assumptions and their age at entry to the Plan. Employee contribution rates vary according to age and classification (general or safety). Members are required to contribute 8.36% - 13.46% of their annual covered salary of which the County pays approximately 7%. All employers combined are required to contribute 8.90% of the current year covered payroll. For 2003, the County's annual pension cost of $68,361 was equal to the County's required and actual contributions. Employee contribution rates are established and may be amended pursuant to Articles 6 and 6.8 of the 1937 Act. Employer rates are determined pursuant to Sections 31453 of the 1937 Act.

The following table shows the County's required contributions and percentage contributed, for the current year and two preceding years:

| Year Ended June 30, | Annual Pension Cost | Percentage Contributed |
|---|---|---|
| 2001 | 58,572 | 100% |
| 2002 | 69,245 | 100% |
| 2003 | 68,361 | 100% |

The County, along with the AQMD, issued Pension Refunding Bonds (the "Bonds") in November 1995 with an aggregate amount of $420,527. These Bonds were issued to allow the County and the AQMD to refinance each of their unfunded accrued actuarial liabilities with respect to retirement benefits for their respective employees. The Bonds are the obligations of the employers participating in the Plan and the assets of the Plan do not secure the Bonds. The County's portion of the bond issuance was $386,266. The current amount outstanding at June 30, 2003 is $434,889 (see Note 11).

## NOTE 19 – LEASE/LEASEBACK

In May 1997, the County entered into a lease agreement whereby seven separate County facilities, valued at a total of approximately $146 million, were leased to a financing institution. The County simultaneously entered into a sublease agreement to lease the buildings back, and received a prepayment of $96.2 million from the financing institution, as the investor parent. The County then deposited $87.6 million with the defeasance bank. After transaction expenses of $1 million, the net benefit to the County was $7.6 million. The deposit amount provides payments equal to the County's obligation under the sublease and purchase option. As a result, obligations under this lease/leaseback arrangement are considered to be economically, although not legally defeased. Therefore, the trust assets and the related debt have been excluded from the County's financial statements.

The term of the full lease with the financing institution ends in 2034. However, the term of the agreement with the defeasance bank ends in 2014, at which time the County may either exercise the early purchase option or renegotiate the agreement to the end of the full lease term. The decision will then be based on the prevailing interest rates at the time.

## NOTE 20 – COMMITMENTS AND CONTINGENCIES

**(a)** The County has been named as a defendant in numerous lawsuits and claims arising in the normal course of operations. In the aggregate, these claims seek monetary damages in significant amounts. To the extent the outcome of such litigation has been determined to result in probable loss to the County, such loss has been accrued in the accompanying basic financial statements. In the opinion of County management and County Counsel, the ultimate outcome of the remaining claims cannot be determined at this time.

**(b)** The County recognizes as revenue, grant monies received as reimbursement for costs incurred in certain Federal and State programs it administers. Although the County's grant programs are being audited through June 30, 2003 in accordance with the provisions of the Single Audit Act of 1996, these programs are still subject to financial and compliance audits and resolution of previously identified questioned costs. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the County expects such amounts, if any, to be immaterial.

**(c)** During fiscal year 2002, the State of California's error rate for the food-stamp program exceeded the tolerance thresholds established by the Federal Government. As a result, the State has been sanctioned for amounts in excess of $177,000 pertaining to the Federal non-compliance. The State is attempting to pass-through sanctions to the County in excess of $7,300.

**(d)** In fiscal year 1996, the Board of Supervisors approved a reimbursement agreement ("the agreement") whereby for land parcels transferred in 1983, the Waste Systems Division agreed to reimburse the General Fund for the then fair market value of the land approximating $35,272. The terms of the agreement stipulated that the annual reimbursement will at a rate of $5.00 per ton plus 7% per annum, payable from operational cost savings. The estimated period of repayment is approximately 11 years with final payment by June 2006. During the fiscal year, the Waste Systems Division transferred approximately $5,000 as a repayment under the terms of the agreement. As of June 30, 2003, the total balance outstanding under the agreement was $14,161.

**(e)** Beginning in August 2002 the SWMD commenced an aggressive investigation of perchlorate impacts to soil and groundwater in the vicinity of the Mid Valley Sanitary Landfill ("MVSL"). The work consisted of installing seven permanent groundwater monitoring wells, 24 temporary wells, groundwater modeling, and collection and analysis of groundwater samples. This work was summarized in a report dated October 7, 2002, and was submitted to the Regional Water Quality Control Board ("RWQCB") for their review.

On September 26, 2002, the RWQCB issued a directive to the SWMD to submit a Work Plan and conduct additional perchlorate investigations in the vicinity of the MVSL. The directive required the SWMD to submit the Work Plan by October 26, 2002. The SWMD requested and was granted an extension to the submittal deadline from October 26, 2002 to November 15, 2002. The work plan was submitted to the RWQCB on November 15, 2002. On January 24, 2003, the RWQCB issued Cleanup and Abatement Order No. R8-2003-0013 to the County, which ordered the implementation of the November 15, 2002, work plan to further define the lateral and vertical extent of the perchlorate impacts to soil and groundwater in the vicinity of the MVSL. The work plan consisted of the installation of four permanent groundwater monitoring wells, the construction of 20 temporary wells, the excavation of five soil borings through the wash ponds at the sand and gravel operation, the excavation of borings through the visual berms at the sand and gravel operation, the collection of soil and groundwater samples for analysis, and the preparation of a final report. As of June 30, 2003, all the field work had been completed as outlined in the approved work plan. Our investigation in response to the RWQCB directives has resulted in the expenditure of approximately $2.1 million. An Engineering Feasibility Study for corrective action is currently being prepared and it is anticipated it will be submitted to the RWQCB early next year. However, the current best estimated cost for construction of a corrective action treatment system is approximately $3,500 to $5,000. Additionally, annual operations and maintenance cost are estimated at $150 to $300.

Fiscal Year 2002/2003 unbudgeted costs totaling $1,495 has been committed for the perchlorate investigation and the FY 2003/2004 Budget appropriates $4,511 to continue the investigation.

**(f)** In October 1986, the Flood Control District entered into a loan agreement with the Federal Government for construction of the Day Creek Project for $13,400. A subsequent agreement between the County (on behalf of the District) and the City of Rancho Cucamonga Redevelopment Agency provides the terms and conditions for repayment of the loan. Payments are reflected in the Flood Control District as other revenue (from the City of Rancho Cucamonga) and debt service-principal (to the Bureau of Reclamation). This agreement is to be in force approximately 24 years or until the project is complete and the federal loan is repaid. Payments commenced in 1992 and the remaining balance of the loan as of June 30, 2003, is $5,316. The Flood Control District is contingently liable for the loan if the Agency defaults.

**(g)** The County has entered into several contractual agreements for the construction and/or improvement of several capital projects. These commitments include $5,119 for various projects of the Capital Improvements Fund.

## NOTE 21 – SUBSEQUENT EVENTS

**(a)** In July 2003, the County issued Tax and Revenue Anticipation Notes ("TRANS") totaling $140,000 at an interest rate of 1.50%. This issue followed the prior year issued TRANS of $170,000, which was repaid July 1, 2003. The proceeds of the TRANS are intended to provide financing for 2003-04 General Fund expenditures, including current expenditures, capital expenditures and the discharge of other obligations or indebtedness of the County. The TRANS are secured by a pledge of various monthly amounts of property taxes on the secured roll.

| Beginning Balance July 1, 2002 | Additions | Reductions | Ending Balance June 30, 2003 |
|---|---|---|---|
| $ 175,000 | 170,000 | 175,000 | $ 170,000 |

**(b)** Federal and State disasters were declared for the fires that began in October 2003. The County has and will be incurring significant costs related to these disasters named the Grand Prix and Old fires. It is anticipated that the Federal Emergency Management Agency and the State Office of Emergency Services will reimburse most of the eligible costs. No estimates of the total cost could be determined at the date of this report.

**(c)** Approximately three-fourths of Vehicle License Fee (VLF) revenue is allocated to cities and counties as general purpose financing. The remaining funds are allocated to counties to pay for "realignment" Health and Social Services programs. From Fiscal Year 1998-1999 to 2002-2003, there has been a 67.5% reduction in the actual VLF charged to vehicle owners. When the State acted to reduce the fees, the potential impact would have been felt by counties and cities and not the State. However, since the VLF reductions were first enacted, the State has made up the revenue impact of the VLF rate reductions with State general fund revenues (the "VLF backfill") and VLF revenues allocations to counties and cities have continued as if there was no reduction.

In June 2003, a determination was made by the State Department of Finance that there were insufficient State monies available to provide the VLF backfill to local governments. As a result, the VLF backfill was eliminated on June 20, 2003 and Vehicle License Fees charged to vehicle owners were increased to their previous level effective October 1, 2003. For the period of June 20, 2003 to October 1, 2003, no VLF backfill payments were made by the State and the County lost approximately $28.4 million in discretionary VLF revenues, of which $2.2 million is related to fiscal year 2003. Part of this loss is due to a reduction in the share of VLF allocated as discretionary revenue, from 75.67% to 71.93%, and a corresponding increase in the share allocated to realignment programs to eliminate any loss to these programs caused by the elimination of the VLF backfill. The discretionary revenue loss due to the elimination of the VLF backfill is considered a loan to the State, with the State budget specifying that this loan will be repaid by August 2006.

On November 17, 2003, the Governor issued an executive order which:

- Rescinded the letter issued by the Director of Finance on June 20, 2003 to reinstate the full vehicle license fee and eliminate the offset from the State General Fund.
- Ordered the Department of Motor Vehicles to reinstate the General Fund offset to the vehicle license fee as soon as administratively feasible.
- Ordered the Department of Motor Vehicles to refund to taxpayers all overpayments of vehicle license fees paid since June 20, 2003, in excess of amounts due taking into account the offset.

On this same day, the Governor issued a proclamation convening an extraordinary session of the legislature on November 18, 2003 to consider several items, including legislation relative to funding the offset of the motor vehicle license fee from the State's General Fund. As of this date, this issue has not been resolved. The County currently estimates that it could lose a total of $94.0 million in discretionary vehicle license fee revenues and $27.0 million in realignment vehicle license fee revenues in 2003-04 if the VLF backfill is eliminated for the entire fiscal year.

**(d)** On November 25, 2003 the board, acting as the governing body of the County Service Area 70, Improvement Zone J ("CSA 70 J") entered into a $2,400 loan agreement with the California Infrastructure and Economic Development Bank ("CIEDB") to fund water system improvements in CSA 70 J. The terms of the agreement is for thirty 30 years with interest at 3.09% per annum.